

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6955

BILL NUMBER: HB 1111

NOTE PREPARED: Feb 27, 2012

BILL AMENDED: Feb 23, 2012

SUBJECT: Historic Preservation Tax Credit.

FIRST AUTHOR: Rep. Clere

FIRST SPONSOR: Sen. Merritt

BILL STATUS: 2nd Reading - 2nd House

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Various Changes to the Historic Rehabilitation Income Tax Credit:*

This bill provides that to be eligible for the state historic rehabilitation tax credit, the property must also have been vacant for at least one year. It increases the minimum amount of expenditures to qualify for the credit from \$10,000 to \$25,000. It provides that the amount of credits that may be certified by the Division of Historic Preservation and Archaeology (DHPA) for a state fiscal year may not exceed \$450,000 (excluding any credit amounts that are carried over from a previous year). It provides that after June 30, 2012, the DHPA may not certify an additional credit until each credit certified before July 1, 2012, has been claimed (in whole or in part) by a taxpayer. In addition, the bill provides that after June 30, 2012, the DHPA may not, in any particular state fiscal year, certify an additional credit unless the credit may be certified for that particular state fiscal year. The bill also provides that the amount of credits that the DHPA may certify for a particular property in a state fiscal year may not exceed 20% of the total amount of credits that the DHPA may certify for that state fiscal year.

Division of Historic Preservation and Archaeology (DHPA): The bill requires the DHPA to reserve 25% of the available credit for projects for which the approved qualified expenditures do not exceed \$500,000. It prohibits the DHPA from reallocating available tax credits from year to year.

Local Income Tax Credits for Preservation or Rehabilitation of Historic Property: The bill provides that the fiscal body of a county or of a municipality (a designating body) may adopt an ordinance authorizing a credit against a taxpayer's local income tax liability or property tax liability (as specified in the ordinance adopted by the designating body) for the year in which the taxpayer completes the preservation or rehabilitation of certain historic property. It requires the ordinance to specify: (1) whether the credit will apply to a taxpayer's

local income tax liability or a taxpayer's property tax liability; (2) the qualified expenditures that are eligible for the credit; (3) the percentage of the credit (not to exceed 20%); (4) any other conditions that must be satisfied before a taxpayer may claim a credit; and (5) the annual limit, if any, on the amount of credits that may be claimed under the ordinance. It provides that an ordinance adopted by a designating body that is a municipal fiscal body may allow a credit only for the preservation or rehabilitation of historic property that is located within the municipality. The bill also provides that an ordinance adopted by a designating body that is a county fiscal body may allow a credit only for the preservation or rehabilitation of historic property that is located within the county and that is not located with a municipality.

Effective Date: July 1, 2012.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the changes in the tax credit. DOR's current level of resources should be sufficient to implement these changes.

(Revised) *Division of Historic Preservation and Archaeology (DHPA):* The bill makes several changes to the Historic Rehabilitation Income Tax Credit. As a result, credit application forms will need to be revised, which will result in increased administrative costs.

Explanation of State Revenues: (Revised) *Historic Rehabilitation Income Tax Credit:* This bill leaves the current \$450,000 fiscal year cap in place (excluding any credit amounts that are carried over from a previous year), but provides that new credits may not be certified by the DHPA until all previously granted credits have been claimed. The queue of tax credits totals about \$5 M.

Background Information - Current statute provides for a nonrefundable AGI Tax credit for individual and corporate taxpayers equal to 20% of the historic preservation or rehabilitation expenditures made by the taxpayer. The expenditures must exceed \$10,000 and must be certified by the Department of Natural Resources (DNR). The tax credit is nonrefundable, but excess credits may be carried forward for 15 years. The tax credit may not be carried back.

Current statute prohibits the aggregate amount of credits certified to taxpayers by the DNR during a fiscal year from exceeding \$450,000. From FY 1995 to FY 2011, the DNR certified about \$8.1 M in credits. In addition, the DNR has already certified tax credits up to the annual aggregate credit limit (\$450,000) for each year through FY 2023. This translates into approximately \$5 M in additional tax credits to be claimed against future tax liabilities.

In 2007, 57 taxpayers claimed \$217,783, 48 taxpayers claimed \$153,611 in 2008, and in 2009, 39 taxpayers claimed \$99,285 in Historic Rehabilitation Tax Credits on Indiana individual income tax returns. Historic Rehabilitation Tax Credits were not claimed by corporate taxpayers in 2007, 2008 and 2009. Revenue from the AGI Tax on individuals and corporations is distributed to the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) *Local Income Tax Credits for Preservation or Rehabilitation of Historic Property:* The bill provides that the fiscal body of a county or of a municipality (a designating body) may adopt an ordinance authorizing a credit against a taxpayer's local income tax liability or property tax

liability (as specified in the ordinance adopted by the designating body) for the year in which the taxpayer completes the preservation or rehabilitation of certain historic property. It is unknown to what extent these ordinances will be adopted, and so the potential impact on local income tax and/or property tax revenue is indeterminable.

State Agencies Affected: Department of State Revenue; Division of Historic Preservation and Archeology, Department of Natural Resources.

Local Agencies Affected:

Information Sources: OFMA Income Tax Databases; David Duvall, DHPA, 232-1635.

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